

TAX EXEMPTIONS INTERIM COMMITTEE

August 2, 2007

2:15 p.m. – 3:00 p.m.

Perspectives on Individual Tax Policy



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Principles of Taxation

- **Fairness**

- *Benefits Received*
- *Ability-to-Pay*

- **Efficiency**

- *Administration Costs*
- *Compliance Costs*
- *Market Distortion (Burden/Subsidy)*

- **'Pluck-the-geese'**

ECONOMIC
QUESTIONS?
WE HAVE
ANSWERS



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ECONOMIC RESEARCH AND ANALYSIS

• Fairness

- *Benefits Received* : From 14th Century. Views public services much like private goods. Taxes are the price people pay to receive services. Difficult to allocate services consumed by all people – national defense, law enforcement, educational services.
- *Ability-to-Pay* : Adam Smith, John Stuart Mill. Assessed on income or wealth. Three philosophical approaches:
 - Progressive
 - Regressive
 - Proportional



- **Efficiency**

- *Administration Costs* : What it costs the government to collect the tax.
- *Compliance Costs* : What it cost the taxpayer to pay the tax.
- *Market Distortion (Burden/Subsidy)* : Can have intended and unintended results.



- **‘Pluck-the-geese’**

“The art of taxation consists in so plucking the goose as to obtain the largest possible amount of feathers with the smallest possible amount of hissing”

Jean Baptiste Colbert quotes (French Economist and Minister of Finance under King Louis XIV of France. 1619-1683)



Taxpayer Burden is a Function of Both:

- **Tax Base**
- **Tax Rate**

Examples:

- **'Flat Tax'**
- **Individual Income Tax**
- **Sales Tax**



‘Flat Tax’

“There is widespread consensus that the current tax system is a complicated failure that hinders the nation’s growth while allowing the politically well-connected to manipulate the system to get special breaks that are not available to average workers and businesses.” *A Brief Guide to the Flat Tax* (www.heritage.org)

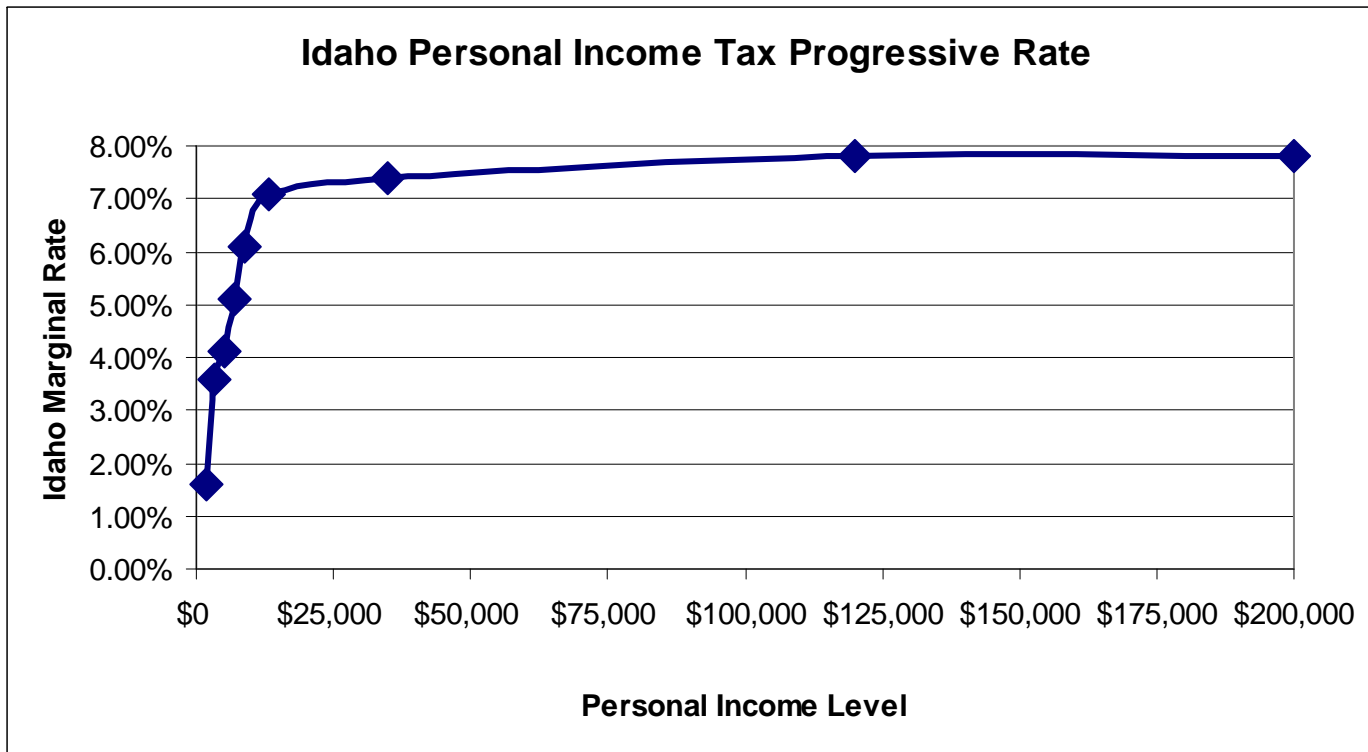
Once Adjusted Gross Income (AGI) or the base is calculated rates can be; a) proportional, b) progressive, or c) regressive can be applied.

Tax ‘simplification’ does not necessary equal a proportional (flat) tax.



Individual Income Tax

Idaho Personal Income Tax is Progressive up to about \$15,000 Annual Income (NOT Taxable Income)



RESEARCH



Individual Income Tax

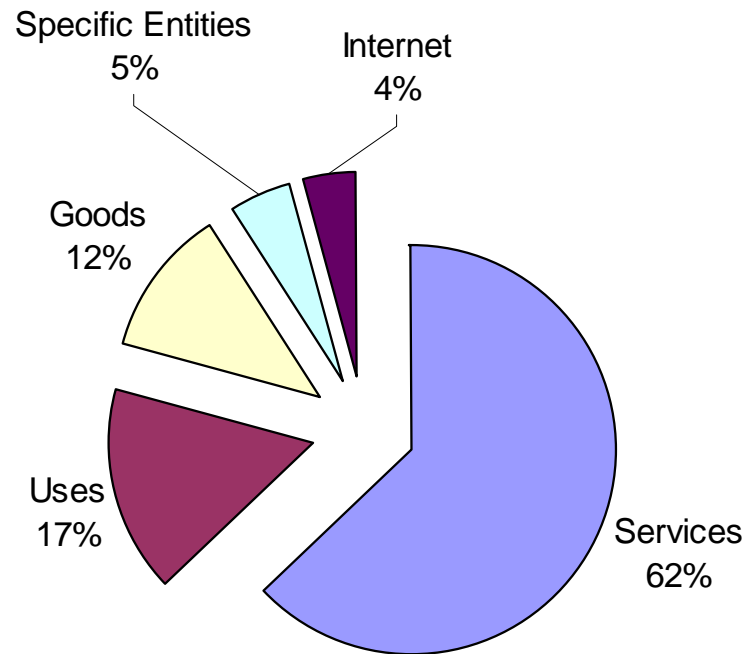
At Personal Income \$35,700 the following Idaho Subtractions were taken (2002). The marginal rate is dropped for these taxpayers from 7.8% to 7.1%.

\$509,005	FED_NOL_CARRY
\$3,976	CAP_LOSS_OUT_IDAHO
\$256,964	INT_DIV_NFED_TAXABLE
\$329,903	OTHER_ADDITIONS
\$174,150	IDAHO_NOL_CARRY
\$939,428	REFUND_IN_FED
\$278,985	INTEREST_US_BONDS
\$136,613	INSULATION_FORM_40
\$54,149	ALT_ENERGY_CREDIT
\$854,368	CHILD_CARE
\$1,690,696	RETIREMENT_BENEFITS_DEDUCT
\$5,917,468	SOC_SECURITY_RAILROAD_BEN
\$7,760	TECH_EQUIP_DONATION
\$1,351,565	CAPITAL_GAINS_DEDUCT
\$15,935	ADOPTION_EXPENSE
\$262,141	MEDICAL_SAVINGS
\$56,783	COLLEGE_SAVINGS
\$51,077	OTHER_SUBTRACTIONS
\$12,890,966	TOTAL_SUBTRACTIONS



Sales Tax

Sales and Use Taxes Avoided (assuming full compliance)



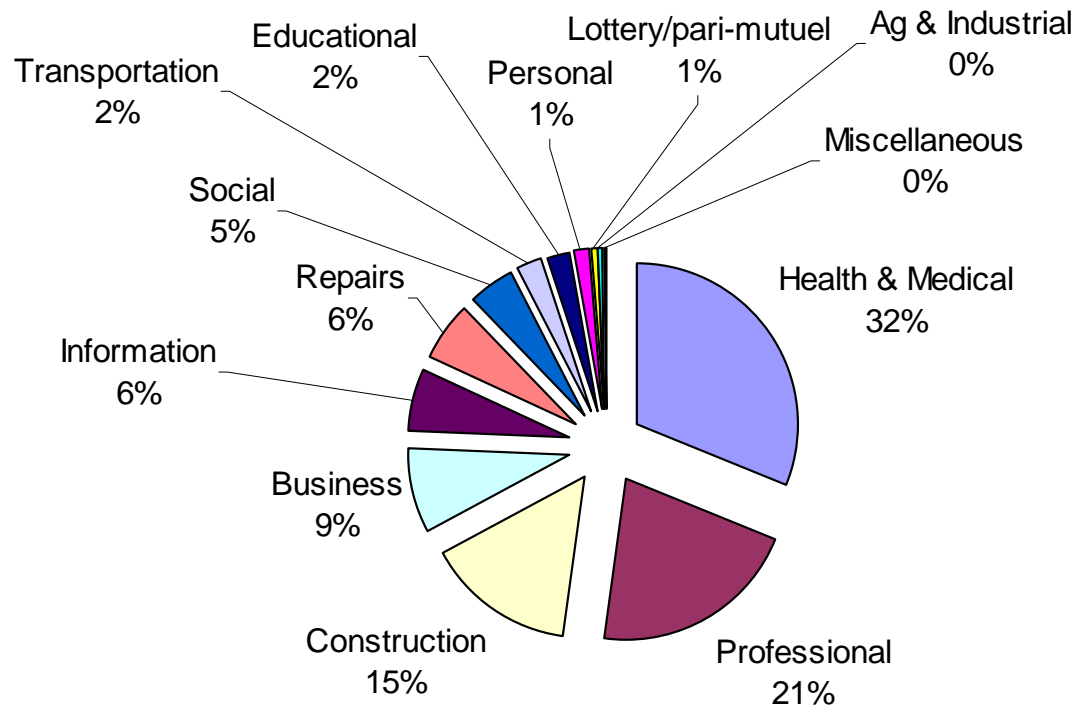
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Sales Tax

Services Taxes Avoided (assuming full compliance)



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